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PUBLIC POLICY AND PERSONAL OPINION

THE real relation of economics to law, only recently acquiring positive recognition, is illuminated by the varying decisions in regard to attempted restrictions on the enjoyment of personal property.

A certain narrow theory of law predicates its specific rules on a Divine preordination, which makes their eternal immutability transcendent of human ideas of utility. "Precedents and rules must be followed even when they are flatly absurd and unjust, if they are agreeable to ancient principles." Practically, however, the matter of current utility does affect the decision of cases, even in the face of precedent. Lord Haldane but put this fact into words when he said,¹ "I think that there are many things of which the judges are bound to take judicial notice which lie outside the law properly so called, and among those things are what is called public policy and the changes which take place in it. The law itself may become modified by this obligation of the judges." Some rules of law, he said, without drawing the line of distinction, like the Rule against Perpetuities, have become "a crystallized proposition forming part of the ordinary common law, so definite that it must be applied without reference to whether a particular case involves the real mischief to guard against which the rule was originally introduced." But between these rules and those "in which the principle of public policy has never crystallized into a definite or exhaustive set of propositions, there lies an intermediate class. Under this third category fall the instances in which public policy has partially precipitated itself into recognized rules which belong to law properly so called, but where these rules have remained subject to the moulding influence of the real reasons of public policy from which they proceeded."

There can be no question but that where no rule at all has been definitely precipitated, judicial decisions are time and again founded on nothing but the judicial apprehension, or conception, of public policy. Every adjudication that some novel statute does or does not constitute "due process of law" is of this type. And there are

¹ *Rodriguez v. Speyer Bros.*, 88 L. J. K. B. 147, 119, L. T. 409 (1918).

not infrequent instances, some of which Lord Haldane cites, in which definite rules of precedent have been disregarded or modified through judicial view of public policy.²

Example, were it necessary, is found in the decisions concerning attempts to restrict an owner's enjoyment of personal property.^{2a} But these cases are even more apt as illustrating how amorphous and absolutely unauthenticated is the substance of this so-called public policy upon which such changes are justified.

The earliest cited authority in these cases is the statement of Coke³ wherein he says, "And so it is if a man be possessed of a lease for years, or of a house, or of any other chattel real or personal, and give or sell his whole interest or property therein, upon condition that the donee or vendee shall not alien the same, the same is void, because his whole interest or property is out of him, so as he has no possibility of a reverter, and it is against trade and traffic, and bargaining and contracting between man and man. * * *" If Coke meant that such restrictions do not bind the owner, as

² An instance of the latter is found in *Bechuanaland Co. v. London Bank* [1898], 2 Q. B. 658, in which the court held certain instruments to be negotiable because of the prevailing custom of dealers therein, despite the fact that the custom was not part of the old law merchant and that such instruments had been theretofore judicially declared not negotiable. Occasionally the actuality of the change is covered in a way that Max Beerbohm might aptly call "inerubilous." Witness *Brooklyn City & N. R. Co. v. National Bank*, 102 U. S. 14. The plaintiff was the pledgee of a promissory note which he had taken subsequent to the loan for which he claimed it as security, and for which he had given no other consideration. The court's argument seems to be as follows: Only holders for value are protected against equities; the pledgee of a note as security for a preëxisting debt ought to be protected as a matter of public policy; therefore, such pledgee is a holder for value.

^{2a} It may be said that these decisions involve no change of "law," but only diverse "conclusions"; that they involve the minor premise, "what is contrary to public good," while the major premise, that assumed obligations which are contrary to public good cannot be enforced, is unaffected. In view, however, of the tendency of courts to declare themselves bound by prior conclusions of this sort, where the facts admit of any generalization at all, the precedents in which certain types of contracts are held not to conflict with public policy seem properly to be treated as expressive of a rule, and therefore, in one sense, of law. But whether the decisions are called one thing or another does not affect the gist of this discussion.

³ COKE ON LITTLETON, Art. 360, Vol. II [J. H. Thomas' Ed.], p. 26.

owner, and was referring only to their lack of effectiveness at law, his statement has been consistently followed.⁴

But in equity there has been apparent disagreement with it.⁵ The opposite view appears in *De Mattos v. Gibson*.⁶ One Curry had mortgaged a ship to Gibson, by virtue of which mortgage Gibson had a legal right to sell the vessel. But he knew at the time of taking the mortgage that Curry was under obligation to De Mattos to use the vessel in a certain way. De Mattos asked an injunction which, among other things, should restrain Gibson from selling the vessel otherwise than subject to the use for which Curry had contracted. The injunction was denied because the plaintiff had lost what equitable rights he might have had. But the court expressly said that if Gibson had shown an intent to cause Curry to break his contract, by selling the vessel without subjection to the contract, the court would have restrained him. In such case, there would have been an enforceable limitation upon Gibson's right of alienation, in favor of one who had no ownership and with whom Gibson was not in privity of contract.

This has been the actual decision in two New York cases. In *New York Bank Note Co. v. Hamilton Bank Note Co.*⁷ the Kidder Press Co. had contracted with the plaintiff not to sell machines made according to its patents to anyone except the plaintiff. It did sell, however, to the defendant, who knew of the agreement.

⁴In conflict with it, however, are *Stewart v. Williams*, 2 Md. 425, and *French v. Old South Society*, 106 Mass. 179. A notable exception also is the growing tendency of courts and legislatures to look with favor upon "spendthrift trusts," and to hold such restrictions on alienation to be valid. See GRAY, RESTRAINTS ON ALIENATIONS [2nd ed.].

⁵The distinction between the legal and equitable effect is spoken of in *Matter of Petition of Argus Co.*, 138 N. Y. 557. The parties had agreed that no one of them would sell his stock in a certain company without first offering it, at a fair price, to the others. One of them did sell, in disregard of this agreement, and the buyer of the stock voted it at an election of directors. The suit involved the validity of this election. The court held that although the agreement might be valid and equity might even have enjoined its breach, nevertheless "the transfer to Speer vested in him the legal title to the shares, although they were not transferred on the books of the company," and he had the legal right to vote the stock.

⁶4 De Gex and Jones, 276 (1858).

⁷28 App. Div. 411, 83 Hun. 593 (1898).

Because of its knowledge of this agreement not to sell, the defendant was enjoined from using machines already purchased and the Kidder company was restrained from selling any others. The same thing was held in *Murphy v. Christian Press, etc., Co.*⁸ in the following year. The Catholic Publication Society had contracted with the plaintiff that it would not sell books printed from certain plates at less than a stated price. The Catholic company's receiver, in dissolution, sold the plates to the defendant, who knew of the terms of the contract. The defendant was enjoined from selling books below the stated price, although there was no contract between it and the plaintiff. The agreement, stated the court, "although technically a personal one, related to the use of its property, the copyright and plates, and obligated all who might acquire that property with notice of the agreement. This is the settled doctrine of the Court of Appeals where the agreement relates to real estate. We can see no reason why the same rule should not apply in the case of personal property."⁹

But the New York judicial idea of public policy, although in accord with that of the court in *De Mattos v. Gibson, supra*, was ignored by the English court in *Taddy & Co. v. Sterious & Co.*¹⁰ a few years later. The plaintiff was a manufacturer of tobacco which he sold to wholesalers on their promise that it should not be resold below a stated price. The defendant had bought from a wholesaler, with knowledge of this limitation on the right to resell. There was no privity of contract, the court held, between plaintiff and defendant, and injunction against reselling below the stated price was denied on the statement, as reported without discussion or elaboration, that "conditions of this kind did not run with the goods and could not be imposed on them."

The Massachusetts court also has differed from the New York judges in its view of the policy of such limitations upon ownership and ignored the New York decisions, saying, "This right (to con-

⁸ 38 N. Y. App. Div. 426 (1899).

⁹ In *Clemens v. Estes*, 22 Fed. 899 (1885), the only reason given for refusing injunction against the third person was that he had no knowledge of the restriction. In *Dr. Miles Medical Co. v. Goldthwait*, 133 Fed. 794 (1904), an injunction against one who did know of the contract was allowed.

¹⁰ 20 T. L. R. 102 (1903).

trol the re-sale price) is founded on the personal contract alone, and it can be enforced only against the contracting party. To say that this contract is attached to the property and follows it through successive sales which severally pass title, is a very different proposition. We know of no authority nor of any sound principle which will justify us in so holding."¹¹

The statement of Coke, as quoted above, is followed by the qualification that this legal futility of restriction upon alienation is "to be understood of conditions annexed to the grant or sale itself, in respect of the repugnancy, and not to any other collateral thing, as hereafter shall appear." This, too, courts both of law and equity have followed, until recently, so far as to affirm the validity of *contracts* whereby the alienation and enjoyment of chattels is restricted.¹²

In *Elliman Sons & Co. v. Carrington & Son*,¹³ decided only two years previous to *Taddy v. Sterious*, *supra*, and in no wise affected by that decision that the restriction did not run with the ownership, it appeared that the plaintiff had sold bottles of its patent medicine to the defendant in consideration of the latter's agreement not to resell them below a stated price. The defendant did resell below that price, in disregard of his agreement, and the plaintiff sought to restrain him. The defense was that the contract itself was opposed to public policy and therefore void. The court considered it unnecessary even to hear argument in support of the validity of the contract, but held it valid, saying, "It is merely a question whether a man is entitled, when he is selling his own goods, to make a bargain as to the use to be made of them by the purchaser.

¹¹ *Garst v. Hale*, 179 Mass. 588 (1901). Even Massachusetts, after this decision, allowed injunction restraining the defendant from inducing the one who was bound by such a contract from breaking it. *Garst v. Charles*, 187 Mass. 144 (1905). Thus the validity of the contract was recognized. The Federal courts also have granted such injunctions. *Dr. Miles Medical Co. v. Platt*, 142 Fed. 606 (1906); *Hartman v. John D. Park & Sons*, 145 Fed. 358 (1906); *Dr. Miles Medical Co. v. Jaynes Drug Co.*, 149 Fed. 838 (1906).

¹² This discussion does not relate to those numerous contracts whereby the parties have attempted to restrict the production of goods, nor to those whose purpose is to eliminate or reduce competition; e. g., agreements not to reënter business, or not to sell to certain persons, as in *Park & Sons Co. v. National Druggists' Asso.*, 175 N. Y. 1.

¹³ [1901] 2 Ch. Div. 275.

It is said that the contract is against public policy; but that phrase merely embodies, for the present purposes, the great principle of restraint of trade, and to say that it is to prevent Messrs. Elliman from exercising their own discretion seems to me to be applying a well settled principle of law to facts to which it can not have any possible application." So far as the report indicates, the plaintiff was the only concern which made that particular medicine, and it made similar contracts with all of its distributors.

In *Garst v. Harris*¹⁴ the plaintiff was the manufacturer of Phenyo Caffein. He sold bottles of it to the defendant on the agreement that the latter should not resell below a set price. Here also the plaintiff controlled the entire output of the particular article, and there is nothing in the case to negative the presumption that he made similar contracts with all his customers. The contract was held valid, in an action for damages from its breach, the court saying, "When, as here, there is a secret composition, which the defendant presumably would have no chance to sell at a profit at all but for the plaintiff's permission, a limit to the license, in the form of a restriction of the price at which he may sell, is proper enough." In *Garst v. Hale*¹⁵ such a restriction was held not to run with the ownership, but in *Garst v. Charles*¹⁶ the validity of the contract as between the parties was again recognized.¹⁷

The New York courts have taken the same position,¹⁸ saying, "There is nothing to prevent an individual from selling any property that he has at any price which he can get for it. Nor is there any reason why an individual should not agree that he will not sell property which he owns at the time of making the agreement, or which he thereafter acquires, at less than at a fixed price."¹⁹

¹⁴ 177 Mass. 72 (1900).

¹⁵ 179 Mass. 588 (1901).

¹⁶ 187 Mass. 144 (1905).

¹⁷ *Myer v. Estes*, 164 Mass. 457 (1895), concerned the validity of a single contract. The plaintiff had sold electrotype plates to the defendant on the latter's promise neither to resell them nor to use them in other than a stipulated way. The defendant did resell them, and the court held that as his buyer, who had no notice of the agreement, took the title free from any restrictions, the plaintiff was damaged and could recover at law.

¹⁸ *Walsh v. Dwight*, 40 App. Div. 573 (1898).

¹⁹ In *Missouri*, *Griffith v. Lewis*, 17 Mo. App. 602 (1885), the court held, without deciding whether such a limitation was valid or not, that at least

One of a regular system of contracts by which the manufacturers of a certain brand of groceries bound their customers not to resell below a stated price was upheld by the Kentucky courts in *Commonwealth v. Grinstead*.²⁰ A contract by the buyer not to resell at all was held valid and enforceable by the Texas court.²¹

The Federal courts also recognized such contracts as valid and not in conflict with public policy. In *Clemens v. Estes*,²² an injunction to restrain a *sub-buyer* from reselling below the price set by his seller's contract was refused only on the ground that the defendant had no knowledge of the contract. In a similar decision in *Harrison v. Maynard*,²⁴ it was added that the contract itself would have been enforceable. In *Dr. Miles Medical Co. v. Goldthwaite*²⁵ and *Dr. Miles Medical Co. v. Platt*,²⁶ there was a specific recognition of the contract as valid, although the plaintiff controlled the entire output of such goods and apparently made similar contracts with all his customers. In *Hartman v. John D. Park & Sons*,²⁷ there was a similar holding, with the further express declaration that such contracts got no peculiar validity from the fact that the article concerned was made under a secret process.²⁸

In another case of the same year²⁹ the plaintiff had sold books with a restriction that they should not be resold before a stated time nor below a stated price. The court first declared that the

one who had disregarded it could not recover from the seller a rebate promised on condition of its observance. Accord, *N. Y. Ice Co. v. Parker*, 21 How. Pr. (N. Y.) 302 (1861).

²⁰ 111 Ky. 203, 56 L. R. A. 709 (1901).

²¹ *Ice Co. v. Brewing Asso.*, 8 Tex. Civ. App. 1.

An agreement between owners of shares of stock in a corporation that no one of them would sell within six months without the consent of all was upheld in *Williams v. Montgomery*, 148 N. Y. 519 (1896). Accord, *Hey v. Dolphin*, 36 N. Y. S. 627, 92 Hun. 230 (1895). Contra, *Fisher v. Bush*, 42 N. Y. Sup. Ct. 641 (1885). In *Moore v. Bank of Commerce*, 52 Mo. 377 (1873), a by-law of a corporation imposing a restriction upon the power of stockholders to sell their shares was held void.

²² 22 Fed. 899 (1885).

²⁴ 61 Fed. 689 (1894).

²⁵ 133 Fed. 794 (1904).

²⁶ 142 Fed. 606 (1906).

²⁷ 145 Fed. 350 (1906).

²⁸ Accord, *Dr. Miles Medical Co. v. Jaynes Drug Co.*, 149 Fed. 838 (1906).

²⁹ *Authors & Newspapers Asso. v. O'Gorman Co.*, 147 Fed. 616 (1906).

plaintiff had no peculiar right to restrain the resale because of any copyright covering the books, and then held, that if the defendant had notice of this restriction he was bound by it, saying, "It is said that this restraint on alienation is contrary to public policy. I am unable to see any inequity or violation of public policy in the agreement by the purchaser that he will not resell it within a limited period."³⁰

In *Phillips v. Iola Portland Cement Co.*,³¹ the court decided that a contract between buyer and seller whereby the former agreed not to resell at all outside of a stated territory, was neither an unlawful restraint of trade nor obnoxious to the anti-trust law of 1890.

Thus the harmony of decision stood until the decision of the Circuit Court of Appeals in *John D. Park & Sons Co. v. Hartman*.³² This court held that, while a single contract obligating the buyer not to resell below a certain price would be valid, a system of contracts whereby he attempted to control the resale price of his entire output was contrary to public policy and the contracts were void. The court's "distinction" of the prior decisions is decidedly unsatisfactory. The authority which it cites in support of the holding consists of such cases as *Prater v. Campbell*,³³ to the effect that a "warranty" in the sale of a chattel is personal to the buyer and does not so run with the chattel as to give subsequent owners a right of action. The court does not expressly consider the economic effect of its decision, and justifies its conclusion by precedent. But as precedent as a whole does not lead to the court's conclusion, it is rather obvious that the court formed its own opinion as to what public policy required and then sought to support it by precedent. The case of *Commonwealth v. Grinstead*, *supra*, decided by the same Kentucky court, in conflict with the decision of the *Hartman* case, is ignored.³⁴

³⁰ *Bobbs-Merrill Co. v. Straus*, 210 U. S. 339 (1907), was decided on the assumption that there was no contract relation at all between the parties, and it was therefore unnecessary to consider the validity and effect of such contracts.

³¹ 125 Fed. 593 (1903).

³² 153 Fed. 24 (1907).

³³ 110 Ky. 23.

³⁴ The court distinguishes *Murphy v. Christian Press Co.*, *supra*, on the ground that the restriction therein enforced acquired validity through the

Even in the decision of the Supreme Court,³⁵ affirming the invalidity of such contracts, the opinion is not based on any examination of, or argument as to, economic actualities, but rather upon what the precedents that appealed to the court had held to be good policy.³⁶

The Federal courts have, of course, followed these latter decisions.³⁷

The State courts, however, seem not to have been convinced of the correctness of the Supreme Court's conclusion. In *Ingersoll & Bro. v. Hahne & Co.*,³⁸ the plaintiff sought to enjoin the defendant from selling watches made by the plaintiff and sold by it only on condition that buyers and subsequent owners should not resell below a stated price. It does not appear that defendant was a party to such a contract, but he did have notice of it. The case was decided in part under a New Jersey statute, interpreted to prohibit such acts as the defendant was charged with, but the court expressly said, "On the argument there was, and in counsel's brief there is, a long discussion as to whether the contract against price cutting,

copyright on the books—ignoring the statement by that court that it could "see no reason why the same rule (that applied to real estate) should not apply in the case of personal property"! The express finding in *Authors & Newspapers Asso. v. O'Gorman Co.*, *supra*, that the restriction acquired no especial validity from the copyright was not referred to.

³⁵ *Dr. Miles Medical Co. v. John D. Park & Son*, 220 U. S. 373 (1910).

³⁶ It is particularly odd that the Supreme Court should thus have itself imposed a limitation upon freedom in individual contract, in view of the hesitancy with which courts have permitted even legislatures to limit freedom of contract in the interest of public good. *Adair v. United States*, 208 U. S. 161; *Braceville Coal Co. v. People*, 147 Ill. 66; *State v. Fire Creek Coal & Coke Co.*, 33 W. Va. 188, *et al.*

³⁷ A contract of the Ford Motor Co. with a distributor to the effect that the latter would not resell below a fixed price was held, without discussion, to be "concededly" invalid. No mention was made of its being part of a "system" of contracts. *Ford Motor Co. v. Union Motor Sales Co.*, 225 Fed. 373 (1914); 244 Fed. 156 (1917). It is interesting to note that after this decision the Ford company changed its contracts so as to retain title in itself as against its distributors, so that the latter became mere sales agents. The obligation of these agents not to sell below the stated price was enforced in *Orebourg v. New*, 6 Ohio App. 404 (1917). So, also, *Ford Motor Car Co. v. Benj. E. Boone, Inc.*, 244 Fed. 335 (1917).

³⁸ 88 N. J. Eq. 222 (1917); *Aff'd*. 108 Atl. 128.

evidenced by the notice, is contrary to public policy and defendant relies upon cases in the Supreme Court of the United States. * * * I am now considering the public policy of the State of New Jersey as distinguished from any public policy of the United States. * * * After careful consideration, I have come to the conclusion that upon the general proposition I agree with the dissenting opinion of Mr. Justice Holmes in *Dr. Miles Medical Co. v. John D. Park & Sons Co.*"

In California³⁹ the court was asked to enjoin a buyer of olive-oil from reselling at a price below that stipulated in his contract with the seller, the plaintiff. It granted the injunction on the ground that such contracts restricting the resale price were perfectly valid, at least so long as they did not affect the entire supply of the commodity. This was followed by *Ghirardelli v. Hunsicker*,⁴⁰ upholding one of a *system* of contracts that the buyers of the plaintiff's brand of chocolate should not resell below the price stated. The decision was "distinguished" from the patent medicine cases on the ground that in them the contracts covered the whole supply of "Peruna," while in the instant case the contracts, although they covered all of "Ghirardelli's," did not cover all chocolate.⁴¹

The cases involving chattels covered by a patent right properly stand on a different basis from those just discussed. When an article involves an invention protected by patent, the restriction upon its owner's right of alienation, or of enjoyment, is imposed by the patent statute. It is in no sense a contract restriction; it is not created by the patentee, and has no relation to ownership as such. The ownership of a chattel may be in one by virtue of his creation of the chattel; there may be no suggestion of contract or any other relation between him and a patentee. Yet, if the chattel involves a patented invention, that owner is precluded from using his chattel or selling it without permission of the patentee. "Ownership" of a chattel gives no right whatever either to use or to sell that chattel, if it involves a patented invention. The patentee has no right to the chattel itself.⁴² Its owner is indubitably owner in

³⁹ *Grogan v. Chafee*, 156 Cal. 611 (1909).

⁴⁰ 164 Cal. 355 (1912).

⁴¹ See also *Fisher Flouring Mills Co. v. Swanson*, 76 Wash. 649. *Contra*, *Hill Co. v. Gray & Worcester*, 163 Mich. 12 (1910).

⁴² *Belknap v. Schild*, 161 U. S. 10.

every sense of the word, yet every patent decision holds that he may be restrained from either using it or selling it without the patentee's permission. As an example, in *Dickerson v. Sheldon*⁴³ the defendant had bought certain chattels at a sale by the United States government of articles which had been confiscated for non-payment of customs duties. They embodied an invention patented to plaintiff. On suit by the patentee the court held that the defendant indubitably got "title" to the articles and the plaintiff had no interest in them, but that the defendant could not sell them without the plaintiff's permission.⁴⁴

If the patentee chooses to allow the owner of a chattel, involving his invention, to use or sell the chattel at all, he is not bound to grant unrestricted permission. "Owning the whole, he owns every part."⁴⁵ On this theory that the patentee has a right absolutely to exclude others from any enjoyment of the invention, it has been held that he may not only arbitrarily determine *who* may invade his monopoly of enjoyment, but also *how* they may invade it. Thus, he may permit a licensee to enjoy the invention *in a particular place only and only by himself*, and the licensee will be restrained from utilizing this invention elsewhere or with other persons.⁴⁶ So, the right to use and enjoy even machines *made by the licensee himself* may be limited to a stated time, and even persons who have bought the machines from such maker have no right to use them after the stated period.⁴⁷ He may effectively limit the licensee as to the *purpose* for which he may use embodiments of the invention.⁴⁸ Restrictions as to the territory within which a licensee may use chattels embodying the invention are common.⁴⁹ All these restrictions on the use and enjoyment of chattels, it may be repeated,

⁴³ 98 Fed. 621 (1899).

⁴⁴ A payment of damages for unwarranted use does not give the owner right to use thereafter. *Birdsell v. Shabiol*, 112 U. S. 485.

⁴⁵ *Victor Talking Machine Co. v. The Fair*, 123 Fed. 424 (1903).

⁴⁶ *Rubber Co. v. Goodyear*, 9 Wall. 788 (1869).

⁴⁷ *Mitchell v. Hawley*, 16 Wall. 544 (1872).

⁴⁸ *Gamewell Fire-Arms Co. v. City of Brooklyn*, 14 Fed. 235 (1882).

⁴⁹ *Brush Elec. Co. v. Col. Elec. Lt. & Co.*, 52 Fed. 945 (1892). This should not be confused with the fact that if one is given power to sell, without restrictions, embodiments of the invention, his buyers do take without restriction, although he, the seller himself, may be limited as to where or

are judicially sanctioned despite the ownership of the chattel by the restricted user.

The price at which the licensee may sell chattels has been held a valid limitation by the patentee in protection of his monopoly. So "a patentee may reserve to himself as an ungranted part of his monopoly of sale the right to fix and control the prices at which jobbers and dealers may sell the patented article to the public, and * * * whoever, without permission, enters the reserved portion is an infringer."⁵⁰ A limitation that the licensee must not deal in goods of other persons than the manufacturer has been upheld.⁵¹ In *Heaton Peninsular Button-Fastener Co. v. Eureka Specialty Co.*⁵² it was held that the patentee might restrict the licensee's authorized invasion of his monopoly to the use of the chattel embodying it by the latter *in connection with other specified articles only*. The invention in that case was of a button-fastening machine. The patentee had no monopoly of the fasteners, but only of the machine for attaching them. He sold such a machine to the defendant with the restriction that if the defendant used it he must use it only with fasteners made by the plaintiff. The court held that its use with any other fasteners was a use which had not been authorized by the patentee and was therefore an infringement of the patented monopoly. "The buyer of the machine," said the court, "undoubtedly obtains the title to the materials embodying the invention. * * * But, as to the

how he may sell. The purchasers' rights follow from the fact that the patentee has neither expressly nor impliedly put any restriction on their right to invade the monopoly, so far as the chattel purchased is concerned, but has by implication of fact opened it wide in respect to the particular chattel bought. It is not because he is owner that the buyer has the unrestricted enjoyment of it, but because in authorizing the licensee to pass title to him, the patentee impliedly opened his monopoly. *Adams v. Burke*, 17 Wall. 453.

⁵⁰ *Victor Talking Machine Co. v. The Fair*, 123 Fed. 424 (1903). Accord, *Bement v. Natl. Harrow Co.*, 186 U. S. 70 (1901): "The very object of these (patent) laws is monopoly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal."

⁵¹ *Bement v. National Harrow Co.*, 186 U. S. 70.

⁵² 77 Fed. 288 (1896).

right to use the invention, he is obviously a mere licensee. * * * The license defines the boundaries of a lawful use."

In 1911, however, the argument was advanced⁵³ that whenever a patentee *sells* an embodiment of his invention—as distinct, perhaps, from authorizing another to make one for himself?—he can not legally restrict the manner in which the buyer may use it, or the extent of use. It had already long been decided that, in the case of a sale without any express limitation, a real permission to use the thing freely is implied by the fact of the sale. But the argument now presented was that this freedom to use must be decreed as a matter of law from *every* sale and that a patentee who chooses to open up his monopoly at all, if he does so by a sale of a chattel, *must* open it completely and without restriction. This argument so impressed three of the court, Justices White, Hughes, and Lamar, that they accepted it. The majority, however, Justice Day taking no part, still held to the proposition that the patentee, since he could exclude others from *any* use of such machines, might restrict others to such limited use as he might see fit.

After this,⁵⁴ the Supreme Court held, without any disagreement, that a combination of manufacturers to make and control the sale of goods covered by various patents was not an illegal combination in restraint of trade, even though the combination licensed outsiders to use the patented goods only on condition that such licensees should not use similar goods of competitors.

Later in the same year, however, in the face of all this consistently opposed authority, the Supreme Court held that a patentee who, by selling goods to another implicitly permits him to invade the monopoly by resale, *can* not legally restrict him as to the price at which he shall resell.⁵⁵ No reason, either utilitarian or otherwise, is presented, the whole discussion being merely a "distinction" of opposing authority. Four Justices, McKenna, Holmes, Lurton, and Van Devanter, dissented, without reported opinion.

A few years later ⁵⁶ the doctrine, that as the patentee owns the whole of the monopoly he owns every part of it, was again denied,

⁵³ *Henry v. Dick Co.*, 224 U. S. 1.

⁵⁴ *U. S. v. Winslow*, 227 U. S. 202 (1912).

⁵⁵ *Bauer v. O'Donnell*, 229 U. S. 1 (1912).

⁵⁶ *Motion Picture Co. v. Universal Film Co.*, 243 U. S. 502 (1916).

this time more explicitly. It was held that if a patentee by sale impliedly authorizes the use of the chattel at all, he can not by notice to owners of it limit the manner of their use of it and confine them to use with stipulated materials. Again no reason is given, except the final statement, that to recognize the validity of the limitation "would be gravely injurious to that public interest, which we have seen is more a favorite of the law than is the promotion of private fortunes." Mr. Justice Holmes, who, with Justices McKenna and Van Devanter, was consistent in his dissent, argued that the patentee's right to limit the extent to which he would open his monopoly had "become a rule of property that law and justice require to be retained," and that no danger to the public interest had been shown sufficient to justify its denial.⁵⁷

In this article there is intended no criticism of the merits of these various decisions. The discussion has to do rather with the manner in which some of them were reached. Between judge-selected law and judge-made law there is a world of philosophic

⁵⁷ Accord with majority opinion, *Straus v. Victor Talking Machine Co.*, 243 U. S. 490 (1916); *Boston Store v. Am. Gramophone Co.*, 246 U. S. 8 (1917).

In *United States v. Colgate Co.*, 250 U. S. 300, the defendant was indicted for violation of the Sherman anti-trust act. It was alleged to have created a combination of dealers and suppressed competition in the sale of its products. The facts were that it had sent to dealers lists of the price at which its products should be sold to the public and had refused to sell to any dealer who failed to conform to such list prices, and had required "assurances" of adherence to the price requirements of those to whom it did sell. The Supreme Court adopted the lower court's holding that no "contract" between the defendant was charged in the indictment, and that it was not criminal for a manufacturer merely to refuse to sell his product except "with the understanding that such customer will resell only at an agreed price."

In *United States v. A. Schrader's Sons, Inc.*, Supreme Court, March 1, 1920, the defendant was also charged with violation of the Sherman act. It was charged with having entered into written contracts with all of its purchasers that they would not resell below stated prices. The lower court decided that there was nothing to distinguish this case from that of *U. S. v. Colgate*, except that the agreements in that case were tacit, or oral, and in this case the contracts were written, and that this was a distinction without a difference. Accordingly, it sustained a demurrer to the indictment. The Supreme Court, however, pointed out that no contract was charged in the *Colgate* case, but only a refusal to sell to those who would not maintain prices. The making of express contracts that the buyer would not resell

distinction and some real difference. "Selection" presupposes that the substance of whatever rule is followed has originated extraneously to the judicial mind. Selection, while it does vest in the judge a real discretionary power, is nevertheless antithetical to the idea of free legislative power in the judiciary.

Decisions which are wholly pragmatic and have no foundation in either precedent or definite custom must be, at their very best, on the border line between selection and creation. The grave objection to such decisions is expressed by Baron Parke⁵⁸ in his statement that "public policy" is "a vague and unsatisfactory term, and calculated to lead to uncertainty and error, when applied to the decision of legal rights; it is capable of being understood in different senses; it may, and does, in its ordinary sense, mean 'political expediency,' or that which is best for the common good of the community; and in that sense there may be every variety of opinion, according to education, habits, talents, and dispositions of each person, who is to decide whether an act is against public policy or not. To allow this to be a ground of judicial decision would lead to the greatest uncertainty and confusion. It is the province of the statesman, and not the lawyer, to discuss, and of the legislature to determine, what is the best for the public good. It is the province of the judge to expound the law only; * * * not to speculate upon what is the best, in his opinion, for the advantage of the community."

Despite this undeniably forceful objection to any purely utilitarian—which means, in effect, to any unprecedented—decision, courts do constantly render such decisions. And if the common law is to be an expression of developing ideas of right rather than a petrifying formulation of quondam beliefs, courts must continue to provide the vital metabolism by eliminating obsolete ideas and formulating into law those new theories which have prevailed in the conflict of ideas. When judges base their opinions, in these pro-

below the stated price it held to be criminal. Justices Holmes and Brandeis dissented.

But in *U. S. v. United Store Machine Co.*, 247 U. S. 32 (1917), the court said that the foregoing holdings do not apply where the patentee has only *leased* the chattel, and that in such cases he may limit the use, and may restrict even the collateral acts of the user as a condition of the right to use at all.

⁵⁸ *Egerton v. Earl Brownlow*, 4 H. C. L. 1, 122 (1853).

gressing decisions, upon facts as they exist, or upon truly prevailing beliefs, they are, in a measure at least, selecting a rule; they are restricted by a certain fitness of conclusion to the facts. But when the very facts upon which such a conclusion is based are themselves empirical conclusions of the judicial mind, then there can be no pretense of anything but judicial free-will in the decision, and it is open to all the objections raised by Baron Parke.

The action of the Supreme Court in precluding restrictions upon the use or alienation of chattels seems most obviously to fall within the latter class, however wise the rule may be in fact. There is no doubt that the decisions were based on the majority idea of sound "public policy." Although there is much discussion of precedent as though the decision might be predicated thereon, in each case the court does expressly justify itself on the ground of public expediency, and it could not otherwise have evaded the frequent prior judicial approval of such restrictions. As Mr. Justice Holmes said flatly, in his dissenting opinion in the *Dr. Miles Medical Co.* case,⁵⁹ "There is no body of precedent that by ineluctable logic requires the conclusion to which the court has come. The conclusion is reached by extending a certain conception of public policy to a new sphere."

But in thus upsetting what had theretofore "become a rule of property," the majority of the court neither discussed the pro and con of public policy nor considered evidence in regard to it. It is most unusual for a court to render a decision based on precedent, the field in which above all others judges have peculiar knowledge, without expounding the precedents chosen as controlling and weighing the merits of those rejected. Not infrequently a court has expressly demanded instruction in precedent from the attorneys concerned in the case. Yet in none of the decisions under discussion did the court really consider and analyze the business conditions and economic needs of the country upon which alone an opinion of political expediency should be predicated. Neither did the court ask for instruction as to such conditions and the economic value or detriment of restriction upon the enjoyment of chattels. The decisions were undeniably personal.

That men who are acquainted by experience and special study

⁵⁹ 220 U. S., page 441.

with the practical business conditions which these decisions affect are not altogether in accord with this judicial idea of what is best for the country is equally undeniable.⁶⁰

The extent to which such empiricism may lead a court is shown in the opinion of the New York court which held unconstitutional a statute aimed at bettering conditions in the slums of New York City and alleviating the frightful conditions prevailing in crowded tenement houses. The court's reason was that "It cannot be conceived how the cigarmaker is to be improved in health or morals by forcing him from his (tenement) home and its hallowed association and beneficent influences to ply his trade elsewhere."⁶¹

In deciding the case of *Muller v. Oregon*,⁶² the court followed the logical course in studying counsel's elaborate presentation of the actual conditions which the statute, whose necessity to the public good was under consideration, was designed to affect. They were judges "more learned than wittie, * * * and more advised than confident."⁶³ When courts do render decisions founded on their own

⁶⁰ A powerful argument, on economic grounds, in favor of the enforcement of restrictions upon the right of resale is given by Harry S. Gleick in 24 Case & Comment, 193. He cites a number of other students of economics in support. See also "Predatory Price Cutting and Unfair Trade," by Edward S. Rogers, 27 HARV. L. REV. 139. The United States Chamber of Commerce has gone on record as favoring the validity of certain restrictions upon the right of resale. Chicago Herald, May 19, 1919, page 13.

⁶¹ In re Jacobs, 98 N. Y. 98.

⁶² 208 U. S. 412. The effect of considering the *facts* is shown in two New York decisions. In *People v. Williams*, 189 N. Y. 131, the court invalidated a statute prohibiting women from working in factories at night. Not one word as to the practical effect of the law, or as to the conditions which called it forth, appears in the opinion. In *People v. Schweinler Press*, 214 N. Y. 395, after a discussion of the physical effect of such night work and a consideration of conditions as shown by the report of the Factory Investigating Committee, the court flatly reversed its earlier decision and held a similar statute to be valid.

Compare, also, the reasoning of the different decisions in *Rodgers v. Coler*, 166 N. Y. 1, and *Ryan v. City of New York*, 177 N. Y. 271; *Ritchie v. People*, 155 Ill. 98, and *Ritchie & Co. v. Wayman*, 244 Ill. 509. Scientific opinion was the basis of the decision in *Washington v. Feilen*, 70 Wash. 65, 41 L. R. A. (N. S.) 418.

⁶³ Compare, "In *Lochner v. New York*, 198 U. S. 45, the state authority in the specific instance was denied because no reasonable relation was discernible to the majority between a ten-hour law for bakers and the public

conceptions of public policy, whether they call the decisions "conclusions of fact" or applications of "law," the very public good which they are seeking requires adherence to the principle that, in the words of Mr. Justice Brandeis, "To decide wisely it is necessary to consider the relevant facts, industrial and commercial."

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welfare. This judgment was based upon a view of the nature of the baker's employment beyond ten hours as known 'to the common understanding.' It is now clear that 'common understanding' is a treacherous criterion both as to the assumptions on which such understanding is based and as to the evil consequences, if they are allowed to govern. The subject is one for scientific scrutiny and critique, for authoritative interpretation of accredited facts." Argument of counsel in *Bunting v. Oregon*, 243 U. S. 426, citing Pound, "Liberty of Contract," 18 YALE L. J. 480.

Mr. James A. Veasey in his article on "The Law of Gas and Oil," 18 MICH. L. REV. 454, points out that a certain line of decisions regarding oil and gas leases has been made on an utterly false assumption of fact. This error arises because "in the later cases the courts do not receive proof upon the nature of oil and gas, nor have their views in this regard kept pace with the expansion of practical and scientific knowledge upon the subject. Inasmuch as they predicate their conception of the matter upon judicial knowledge alone, the expressions found in the earlier decisions relating to the question are persistently repeated in the later cases. Hence the error perseveres."